



**Annual Financial Statements  
for the year ended 30 June 2019**

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## General Information

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<b>Nature of business and principal activities</b>	Providing services to the community of Umzumbe
<b>Executive Committee</b>	Councillor Ngcobo SR (Mayor) Councillor Zungu MPL (Deputy Mayor) Councillor Shozi MP (Speaker) Councillor Luthuli MZ (Chief Whip) Councillor Luthuli BB (Exco Member) Councillor Mdletshe MS (Exco Member) Councillor Mweese NY (Exco Member) Councillor Zamisa P (Exco Member)
Councillors	Councillor Cele LS Councillor Cele SR Councillor Lithuli BB Councillor Dlamini DDB Councillor Dlamini EB Councillor Duma LN Councillor Habile PL Councillor Hlophe WN Councillor Jeza S Councillor Khanyile RSW Councillor Luthuli OT Councillor Madwe B Councillor Mbambo OJ Councillor Mbayi TM Councillor Mfeka BT Councillor Mfecane MM Councillor Mkhize R Councillor Msani ZZ Councillor Myende TC Councillor Mtambo JP Councillor Ndimande HZ Councillor Nzimande SG Councillor Radebe TJ Councillor Shezi CL Councillor Shozi DZ Councillor Sithole Z Councillor Sikhosana B Councillor Xaba NE Councillor Zama SZ Councillor Ngubane S Councillor Zindela AE
<b>Grading of local authority</b>	Grade 1
<b>Accounting Officer</b>	Ms Z.A.N Lushaba (Acting)
<b>Registered office</b>	Sipofu Road Mathulini Tribal Authority 4220

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## General Information

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**Business address**

Sipofu Road  
Mathulini Tribal Authority  
4220  
Web: [www.umzumbe.gov.za](http://www.umzumbe.gov.za)

**Postal address**

P.O. Box 561  
Hibberdene  
4220

**Bankers**

ABSA Bank Limited

**Auditors**

Auditor General South Africa  
Registered Auditors

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Index

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The reports and statements set out below comprise the annual financial statements presented to the Council:

	<b>Page</b>
Accounting Officer's Responsibilities and Approval	4
Statement of Financial Position	5
Statement of Financial Performance	6
Statement of Changes in Net Assets	7
Cash Flow Statement	8
Statement of Comparison of Budget and Actual Amounts	9 - 10
Accounting Policies	11 - 22
Notes to the Annual Financial Statements	23 - 42

### **MSCOA**

### **Municipal Standard Chart of Accounts**

VAT	Value Added Tax
SDL	Skills Development Levy
GRAP	Generally Recognised Accounting Practice
GIS	Geographical Information Systems
COGTA	Department of Cooperative Governance and Traditional Affairs
IAS	International Accounting Standards
DORA	Division of Revenue Act
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
UIF	Unemployment Insurance Fund
PAYE	Pay As You Earn
MSIG	Municipal Systems Improvement Grant

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Officer's Responsibilities and Approval

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

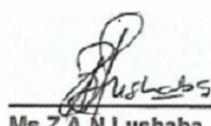
Although the Accounting Officer is primarily responsible for the financial affairs of the municipality, she is supported by the municipality's Chief Financial Officer.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The municipality is substantially dependent on the grant allocations through the Division of revenue act (Dora) for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Umzumbe Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2020 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 5 to 42, which have been prepared on the going concern basis, were approved by the accounting officer on 29 August 2019 and were signed on its behalf by the accounting officer:

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Ms Z.A.N Lushaba  
Accounting Officer (Acting)

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Financial Position as at 30 June 2019

Figures in Rand	Note(s)	2019	2018 Restated*
<b>Current Assets</b>			
Receivables from exchange transactions	4	735,824	726,109
VAT receivable	5	7,137,097	6,632,317
Receivables from non-exchange transactions	6	16,965,377	12,645,548
Cash and Cash Equivalents	7	196,621,721	181,380,745
		<b>221,460,019</b>	<b>201,384,719</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	2	363,693,637	345,048,870
Intangible Assets	3	835,295	1,180,761
		<b>364,528,932</b>	<b>346,229,631</b>
<b>Total Assets</b>		<b>585,988,951</b>	<b>547,614,350</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Operating lease liability	10	51,603	42,973
Trade and Other Payables	11	20,995,658	20,460,453
Unspent Conditional Grants and Receipts	8	6,864,017	499,885
Provisions	9	5,515,288	4,438,529
		<b>33,426,566</b>	<b>25,441,840</b>
<b>Non-Current Liabilities</b>			
Provisions	9	1,108,000	932,000
<b>Total Liabilities</b>		<b>34,534,566</b>	<b>26,373,840</b>
<b>Net Assets</b>		<b>551,454,385</b>	<b>521,240,510</b>
Accumulated Surplus		551,454,385	521,240,510

\* See Note

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018 Restated*
<b>Revenue</b>			
Other income	15	482,706	698,861
Interest received - investment	14	12,993,519	12,509,546
Property rates	12	7,538,883	5,548,890
Government grants & subsidies	13	170,349,868	167,645,187
<b>Total revenue</b>		<b>191,364,976</b>	<b>186,402,484</b>
<b>Expenditure</b>			
Employee Related Costs	19	53,259,459	47,703,292
Remuneration of Councillors	20	16,888,294	15,847,623
Depreciation Amortisation and Impairment	22	24,223,549	24,662,058
Finance costs	16	104,000	95,000
Debt Impairment	21	673,481	456,146
Contracted services	17	17,616,051	16,856,901
General Expenses	18	48,373,630	42,569,762
<b>Total expenditure</b>		<b>161,138,464</b>	<b>148,190,782</b>
<b>Operating Surplus</b>		<b>30,226,512</b>	<b>38,211,702</b>
Loss on Disposal of Assets		(12,637)	(411,601)
<b>Surplus for the year</b>		<b>30,213,875</b>	<b>37,800,101</b>

\* See Note

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Changes in Net Assets

Figures in Rand	Accumulated Surplus	Total net assets
Opening balance as previously reported as at 30 June 2018	483,426,026	483,426,026
Adjustments		
Correction of errors	14,383	14,383
<b>Balance at 01 July 2017 as restated*</b>	<b>483,440,409</b>	<b>483,440,409</b>
Surplus for the year	37,800,101	37,800,101
Total changes	37,800,101	37,800,101
<b>Restated* Balance at 01 July 2018</b>	<b>521,240,510</b>	<b>521,240,510</b>
Changes in net assets		
Surplus for the year	30,213,875	30,213,875
Total changes	30,213,875	30,213,875
<b>Balance at 30 June 2019</b>	<b>551,454,385</b>	<b>551,454,385</b>
Note 28		

\* See Note



# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Receipts from Customers		2,985,767	2,449,739
Grants		176,714,000	163,370,384
Interest income		12,993,519	12,453,838
		<u>192,693,286</u>	<u>178,273,961</u>
<b>Payments</b>			
Finance costs		(104,000)	(95,000)
Cash Paid to Suppliers and Employees		(134,812,823)	(114,732,175)
		<u>(134,916,823)</u>	<u>(114,827,175)</u>
<b>Net cash flows from operating activities</b>	24	<b><u>57,776,463</u></b>	<b><u>63,446,786</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	2	(43,807,120)	(51,363,107)
Proceeds from sale of property, plant and equipment	2	1,271,633	449,920
Purchase of other intangible assets	3	-	(370,244)
<b>Net cash flows from investing activities</b>		<b><u>(42,535,487)</u></b>	<b><u>(51,283,431)</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>15,240,976</b>	<b>12,163,355</b>
Cash and cash equivalents at the beginning of the year		181,380,745	169,217,390
<b>Cash and cash equivalents at the end of the year</b>	7	<b><u>196,621,721</u></b>	<b><u>181,380,745</u></b>

\* See Note

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference (Appendix D1&D2)
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Figures in Rand

### Statement of Financial Performance

#### Revenue

##### Revenue from exchange transactions

Other income	979,760	648,400	<b>1,628,160</b>	482,706	<b>(1,145,454)</b>
Interest Earned - External Investments	12,765,566	-	<b>12,765,566</b>	12,993,519	<b>227,953</b>
<b>Total revenue from exchange transactions</b>	<b>13,745,326</b>	<b>648,400</b>	<b>14,393,726</b>	<b>13,476,225</b>	<b>(917,501)</b>

##### Revenue from non-exchange transactions

##### Taxation revenue

Property rates	4,157,557	3,383,744	<b>7,541,301</b>	7,538,883	<b>(2,418)</b>
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##### Transfer revenue

Government grants & subsidies	172,372,000	4,400,000	<b>176,772,000</b>	170,349,868	<b>(6,422,132)</b>
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<b>Total revenue from non-exchange transactions</b>	<b>176,529,557</b>	<b>7,783,744</b>	<b>184,313,301</b>	<b>177,888,751</b>	<b>(6,424,550)</b>
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<b>Total revenue</b>	<b>190,274,883</b>	<b>8,432,144</b>	<b>198,707,027</b>	<b>191,364,976</b>	<b>(7,342,051)</b>
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#### Expenditure

Salary Related Costs	(77,037,809)	(1,298,443)	<b>(78,336,252)</b>	(70,147,753)	<b>8,188,499</b>
General Expenses, Contracted Services & Other	(113,217,400)	(13,159,031)	<b>(126,376,431)</b>	(90,990,711)	<b>35,385,720</b>

<b>Total expenditure</b>	<b>(190,255,209)</b>	<b>(14,457,474)</b>	<b>(204,712,683)</b>	<b>(161,138,464)</b>	<b>43,574,219</b>
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<b>Operating surplus</b>	<b>19,674</b>	<b>(6,025,330)</b>	<b>(6,005,656)</b>	<b>30,226,512</b>	<b>36,232,168</b>
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Loss on disposal of assets	-	-	-	(12,637)	<b>(12,637)</b>
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Internal Reserves	71,372,366	12,029,330	<b>83,401,696</b>	-	<b>(83,401,696)</b>
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	<b>71,372,366</b>	<b>12,029,330</b>	<b>83,401,696</b>	<b>(12,637)</b>	<b>(83,414,333)</b>
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<b>Surplus / (Deficit)</b>	<b>71,392,040</b>	<b>6,004,000</b>	<b>77,396,040</b>	<b>30,213,875</b>	<b>(47,182,165)</b>
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<b>Capital</b>	-	-	-	-	-
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Capital Expenditure	(71,392,040)	(6,004,000)	<b>(77,396,040)</b>	(43,807,120)	<b>33,588,920</b>
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# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference (Appendix D1&D2)
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Figures in Rand

### Cash Flow Statement

#### Cash flows from operating activities

Net cash (from) from operating activities	71,392,040	6,004,000	<b>77,396,040</b>	57,776,463	<b>(19,619,577)</b>	
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#### Cash flows from investing activities

Purchase of property, plant and equipment	(71,392,040)	(6,004,000)	<b>(77,396,040)</b>	(42,535,487)	<b>34,860,553</b>	
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Net increase/(decrease) in cash and cash equivalents	-	-	-	15,240,976	<b>15,240,976</b>	
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Cash and cash equivalents at the beginning of the year	-	-	-	181,380,745	<b>181,380,745</b>	
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<b>Cash and cash equivalents at the end of the year</b>	-	-	-	<b>196,621,721</b>	<b>196,621,721</b>	
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# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

A summary of the significant GRAP Standards, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

GRAP - 1 Presentation of Financial Statements  
GRAP - 2 Cashflow Statements  
GRAP - 3 Accounting Policies, Changes in Accounting Estimates and Errors  
GRAP - 9 Revenue from Exchange Transactions  
GRAP - 13 Leases  
GRAP - 19 Provisions, Contingent Liabilities and Contingent Assets  
GRAP - 20 Related Party Transactions  
GRAP - 109 Accounting by Principals and Agents  
GRAP - 19 Provisions, Contingent Liabilities and Contingent Assets  
GRAP - 21 Impairment of Non-Cash Generating Assets  
GRAP - 31 Intangible Assets  
GRAP - 14 Events after the reporting date  
GRAP - 24 Presentation of Budget Information in Financial Statements  
GRAP - 23 Revenue from Non-exchange Transactions  
GRAP - 25 Employee Benefits  
GRAP - 104 Financial Instruments

#### **The following GRAP standards have been issued but are not yet effective**

At the date of authorisation of these Annual Financial Statements, the following standards and interpretations were in issue but not yet effective and have not been early adopted by the municipality.

GRAP 34 - Separate Financial Statements  
GRAP 35 - Consolidated Financial Statements  
GRAP 36 - Investments in Associates and Joint Ventures  
GRAP 37 - Joint Arrangements  
GRAP 38 - Disclosure of Interests in Other Entities  
GRAP 110 - Living and Non-living Resources

#### 1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### 1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### 1.3 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition. Where the actual acquisition date or period in respect of assets can not be determined with accuracy, the assets are recognised at fair value on the date that they were identified.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

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Item	Depreciation method	Useful life
Computer equipment	Straight line	05-10
Solid waste disposal	Straight line	05-55
Dwellings	Straight line	05-30
Electricity	Straight line	05-80
Furniture & office equipment	Straight line	03-10
Non Residential dwellings	Straight line	10-30
Transport assets	Straight line	04-20
Machinery & equipment	Straight line	02-20
Roads	Straight line	03-100

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

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# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.4 Property, plant and equipment (continued)

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 2).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 2).

### Assets Under Construction

Incomplete construction work is stated at historical cost. Depreciation only commence when the asset is available for use.

### 1.5 Intangible Assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.5 Intangible Assets (continued)

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible Assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

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Item	Depreciation method	Useful life
Computer software, other	Straight line	3-5

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The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 3).

### 1.6 Financial Instruments

#### Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, risk classes (households, business and government), probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit

#### Payables from exchange transactions

Trade payables are measured at fair value.

#### Cash and Cash Equivalents

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.6 Financial Instruments (continued)

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

#### Bank Overdraft and Borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

#### Receivables from non exchange transactions

Trade receivables from non-exchange transactions are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, risk classes (households, business and government), probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Where the initial credit period granted is not in line with practices or legislation in the public sector, the effect of discounting is considered if it is material.

### 1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

#### Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

#### Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

#### Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Income for leases is disclosed under revenue in statement of financial performance.

#### Operating Leases - Lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.



# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.8 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

- The objective of using the assets.
- The intended use of the asset.

### Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

The municipality designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate a commercial return, the municipality designates the asset as a non-cash-generating asset and applies this accounting policy, rather than the accounting policy on Impairment of Non-cash-generating assets.

### Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

## Accounting Policies

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### 1.8 Impairment of non-cash-generating assets (continued)

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

#### Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

#### Restoration cost approach

Restoration cost is the cost of restoring the service potential of a cash-generating asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

#### Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

#### Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### Reversal of an impairment loss

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.8 Impairment of non-cash-generating assets (continued)

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

### Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

### 1.9 Employee Benefits

#### Short-Term Employee Benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

#### Defined Contribution Plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

The Municipality's employees are members of the Kwazulu - Natal Joint Municipal Pension Fund (a State and Multi Employer Defined Benefit Plan) and Kwazulu Natal Joint Provident Fund (a State and Multi Employer Defined Contribution Plan). Along with other Municipalities in the province of Kwazulu Natal, uMzumbe participates in a multi employer defined plan.

As the plan exposes the participating entities to actuarial risks associated with the current and former employees of other municipalities participating in the plan there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual municipalities participating in the plan. uMzumbe therefore accounts for the plan as if it were defined contribution plan.

#### Long Service Awards

The municipality has an obligation to provide Long Service Awards Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

#### Pension, Provident, Retirement Benefits and Group Life Scheme

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.9 Employee Benefits (continued)

The municipality provides retirement benefits for its employees in the form of a defined contribution plans. The municipality is no longer contributing towards retirement benefits for the Councillors as they are now getting a total cost to company package.

A defined contribution plan is a plan under which the municipality pays a fixed contribution into a separate entity. The municipality has no legal or constructive obligation to pay further contribution if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior period.

The contributions to fund obligations for the payment of retirement benefits are charged against the revenue in the year they become payable.

### 1.10 Provisions and Contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Contingent assets and contingent liabilities are not recognised but disclosed as a note in the financial statements.

### 1.11 Revenue

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable.

Revenue from unconditional grants are recognised immediately upon receipt.

Revenue from tender sales is recognised when the bidders have actually bought the tender documents and cash has been received.

#### Rates

Revenue from rates is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.11 Revenue (continued)

#### Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

#### Conditional Grants and Receipts

Conditional grants, donations and funding are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If grants are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

### 1.12 Accounting by principals and agents

#### Identification

An agent is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

A principal is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

#### Identifying whether an entity is a principal or an agent

When the municipality is party to a principal-agent arrangement, it assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement.

The assessment of whether an municipality is a principal or an agent requires the municipality to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.

#### Recognition

The municipality, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement in accordance with the requirements of the relevant Standards of GRAP.

The municipality, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.12 Accounting by principals and agents (continued)

The municipality recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

### 1.13 Comparative Figures

Where materially necessary, comparative figures have been reclassified and restated to conform to changes in presentation in the current year.

### 1.14 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.15 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.16 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.17 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

### 1.18 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

### 1.19 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

### 1.20 Segment information

A segment is an activity of an entity:

- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.20 Segment information (continued)

- for which separate financial information is available.

Reportable segments are the actual segments which are reported on in the segment report. They are the segments identified above or alternatively an aggregation of two or more of those segments where the aggregation criteria are met.

### 1.21 Related parties

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

### 1.22 Events after the reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

### 1.23 Value Added Tax (VAT)

The municipality accounts for Value Added Tax on the cash basis with respect to the South African Revenue Service

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate (14% until 31 March 2018 and 15% there after) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

### 1.24 Commitments

Commitments may be referred to as the intention to commit to an outflow from the municipality of resources embodying economic benefits.

Generally, a commitment arises when a decision is made to incur a liability in the form of a purchase contract (or similar documentation). Such a contractual commitment would be accompanied by, but not limited to, actions taken to determine the amount of the eventual resource outflow or a reliable estimate e.g. a quote, and conditions to be satisfied to establish an obligation e.g. delivery schedules. In determining the value of commitments, the Municipality may utilise savings among projects. These preconditions ensure that the information relating to commitments is relevant and capable of reliable measurement.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand

2019

2018

### 2. Property, plant and equipment

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Machinery equipment	18,697,916	(6,926,802)	11,771,114	18,459,990	(5,526,960)	12,933,030
Furniture and office equipment	4,606,764	(3,123,094)	1,483,670	4,506,954	(2,951,526)	1,555,428
Transport assets	13,012,494	(3,964,435)	9,048,059	12,605,551	(3,981,906)	8,623,645
Computer equipment	2,995,421	(1,633,244)	1,362,177	2,974,900	(1,599,783)	1,375,117
Roads infrastructure	250,661,390	(104,324,362)	146,337,028	250,631,270	(86,353,449)	164,277,821
Community Assets	54,371,123	(24,550,244)	29,820,879	53,049,000	(22,841,907)	30,207,093
Solid Waste Disposal	253,544	(139,614)	113,930	255,044	(119,865)	135,179
Assets under construction	163,756,780	-	163,756,780	125,941,557	-	125,941,557
<b>Total</b>	<b>508,355,432</b>	<b>(144,661,795)</b>	<b>363,693,637</b>	<b>468,424,266</b>	<b>(123,375,396)</b>	<b>345,048,870</b>



# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand

### 2. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Machinery equipment	12,933,030	403,810	(31,534)	-	(1,534,192)	-	11,771,114
Furniture and office equipment	1,555,428	399,262	(50,363)	-	(420,657)	-	1,483,670
Transport assets	8,623,645	2,449,904	(757,755)	-	(1,267,735)	-	9,048,059
Computer equipment	1,375,117	458,492	(88,880)	-	(382,552)	-	1,362,177
Roads infrastructure	164,277,821	30,120	-	-	(16,284,529)	(1,686,384)	146,337,028
Community assets	30,207,093	193,904	(333,403)	2,056,405	(2,292,982)	(10,138)	29,820,879
Solid waste disposal	135,179	-	(691)	-	(20,558)	-	113,930
Assets under construction	125,941,557	39,871,628	-	(2,056,405)	-	-	163,756,780
	<b>345,048,870</b>	<b>43,807,120</b>	<b>(1,262,626)</b>	<b>-</b>	<b>(22,203,205)</b>	<b>(1,696,522)</b>	<b>363,693,637</b>

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand

### 2. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Machinery equipment	12,301,885	2,118,355	(34,825)	-	(1,452,385)	-	12,933,030
Furniture and office equipment	1,864,556	185,672	(35,932)	-	(458,868)	-	1,555,428
Transport assets	7,917,691	2,840,968	(967,669)	-	(1,167,345)	-	8,623,645
Computer equipment	984,444	779,914	(29,078)	-	(360,163)	-	1,375,117
Roads infrastructure	141,627,296	24,200	(11,240)	41,230,175	(18,110,555)	(482,055)	164,277,821
Community assets	32,483,277	33,500	(9,350)	-	(2,273,244)	(27,090)	30,207,093
Solid waste disposal	188,638	-	(29,054)	-	(24,405)	-	135,179
Assets under construction	121,791,234	45,380,498	-	(41,230,175)	-	-	125,941,557
	<b>319,159,021</b>	<b>51,363,107</b>	<b>(1,117,148)</b>	<b>-</b>	<b>(23,846,965)</b>	<b>(509,145)</b>	<b>345,048,870</b>

#### Reconciliation of Work-in-Progress 2019

	Roads Infrastructure	Community Assets	Total
Opening balance	29,104,495	96,837,062	125,941,557
Additions/capital expenditure	19,362,632	20,508,995	39,871,627
Transferred to completed items	-	(2,056,405)	(2,056,405)
	<b>48,467,127</b>	<b>115,289,652</b>	<b>163,756,779</b>

#### Reconciliation of Work-in-Progress 2018

	Roads Infrastructure	Community Assets	Total
Opening balance	40,992,286	80,798,948	121,791,234
Additions/capital expenditure	29,342,384	16,038,114	45,380,498
Transferred to completed items	(41,230,175)	-	(41,230,175)
	<b>29,104,495</b>	<b>96,837,062</b>	<b>125,941,557</b>

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>2. Property, plant and equipment (continued)</b>		
<b>Expenditure incurred to repair and maintain property, plant and equipment</b>		
<b>Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance</b>		
Contracted services	6,708,784	3,591,809

### Impairment of assets

Impairment of the assets above are as a result of a conditional assessment performed during the physical verification of assets exercise.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand

### 3. Intangible Assets

	2019			2018		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	1,934,251	(1,098,956)	835,295	2,033,441	(852,680)	1,180,761

#### Reconciliation of intangible assets - 2019

	Opening balance	Disposals	Amortisation	Total
Computer software	1,180,761	(21,644)	(323,822)	835,295

#### Reconciliation of intangible assets - 2018

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	1,119,914	370,244	(3,448)	(305,949)	1,180,761

### 4. Receivables from exchange transactions

Sundry debtors	678,014	670,401
Interest	57,810	55,708
Rei Management	2,379,003	2,379,003
Rei Management (Provision for Bad debts)	(2,379,003)	(2,379,003)
	<b>735,824</b>	<b>726,109</b>

### 5. VAT receivable

Value Added Tax	7,137,097	6,632,317
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# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>5. VAT receivable (continued)</b>		
The municipality is predominantly funded by Government Grants which are zero rated. Therefore VAT input has been claimed which has not been received as yet.		
<b>6. Trade and other receivables from non exchange transactions</b>		
<b>Gross balances</b>		
Rates	20,800,010	15,806,700
<b>Less: Allowance for impairment</b>		
Rates	(3,834,633)	(3,161,152)
<b>Net balance</b>		
Rates	16,965,377	12,645,548
<b>Rates</b>		
121 - 365 days	16,965,377	12,645,548
<b>Summary of debtors by customer classification</b>		
<b>Residential</b>		
> 180 days	4,624,232	4,013,185
	4,624,232	4,013,185
Less: Allowance for impairment	(3,834,633)	(3,161,152)
	<b>789,599</b>	<b>852,033</b>
<b>Industrial/ commercial</b>		
> 180 days	3,685,119	3,049,394
<b>National and provincial government</b>		
> 180 days	12,490,660	8,744,121
<b>Total</b>		
> 365 days	20,800,010	15,806,700
	20,800,010	15,806,700
Less: Allowance for impairment	(3,834,633)	(3,161,152)
	<b>16,965,377</b>	<b>12,645,548</b>
<b>Less: Allowance for impairment</b>		
> 365 days	(3,834,633)	(3,161,152)
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(3,161,152)	(2,705,006)
Contributions to allowance	(673,481)	(456,146)
	<b>(3,834,633)</b>	<b>(3,161,152)</b>

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 7. Cash and Cash Equivalents

Cash and cash equivalents consist of:

Cash on hand	2,200	1,866
Bank balances	186,656,537	171,660,042
Short-term deposits	9,962,984	9,718,837
	<b>196,621,721</b>	<b>181,380,745</b>

### The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018
ABSA BANK LTD - Port Shepstone - 40-7276-2850	185,899,311	170,855,731	185,806,628	170,853,731
ABSA Housing Account - Port Shepstone - 40-7278-0715	694,316	657,873	694,316	657,873
ABSA MIG Account - Port Shepstone 40 - 7277-6506	155,592	148,438	155,592	148,438
FNB - Call Account	4,279,298	4,035,151	4,279,298	4,035,151
FNB Fixed Deposit account	5,683,686	5,683,686	5,683,686	5,683,686
<b>Total</b>	<b>196,712,203</b>	<b>181,380,879</b>	<b>196,619,520</b>	<b>181,378,879</b>

### 8. Unspent Conditional Grants and Receipts

The unspent conditional grants are cash backed

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Project Consolidate	99,885	99,885
Municipal Infrastructure Grant	6,100,011	-
KZN Sports Grant	50,000	-
Fire Fighting Grant	614,121	400,000
	<b>6,864,017</b>	<b>499,885</b>

#### Movement during the year

Balance at the beginning of the year	499,885	4,809,072
Grants received during the year	56,148,000	48,215,000
Income recognition during the year	(49,783,868)	(48,573,692)
Grant transferred to National Treasury	-	(3,950,495)
	<b>6,864,017</b>	<b>499,885</b>

Due to the adoption of GRAP-109-Accounting-by-Principals-and-Agents, the unspent portion of the low cost housing grant was reclassified to Trade and Other Payables.

See Note13 for reconciliation of grants from National/Provincial Government.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 9. Provisions

#### Reconciliation of provisions - 2019

	Opening Balance	Additions	Utilised during the year	Actuarial Loss (Gain)	Current Service cost	Finance Cost	Total
Provision for Bonus	1,148,582	1,315,003	(1,148,582)	-	-	-	1,315,003
Long Service Awards	989,000	-	(56,739)	(38,261)	177,000	104,000	1,175,000
Leave Pay	3,232,947	1,056,969	(156,631)	-	-	-	4,133,285
	<b>5,370,529</b>	<b>2,371,972</b>	<b>(1,361,952)</b>	<b>(38,261)</b>	<b>177,000</b>	<b>104,000</b>	<b>6,623,288</b>

#### Reconciliation of provisions - 2018

	Opening Balance	Additions	Utilised during the year	Actuarial Loss (Gain)	Current Service Cost	Finance Cost	Total
Provision for Bonus	964,076	1,952,273	(1,767,767)	-	-	-	1,148,582
Long Service Awards	866,000	-	(68,423)	(55,577)	152,000	95,000	989,000
Leave Pay	2,890,537	1,189,762	(847,352)	-	-	-	3,232,947
	<b>4,720,613</b>	<b>3,142,035</b>	<b>(2,683,542)</b>	<b>(55,577)</b>	<b>152,000</b>	<b>95,000</b>	<b>5,370,529</b>

Non-current liabilities	1,108,000	932,000
Current liabilities	5,515,288	4,438,529
	<b>6,623,288</b>	<b>5,370,529</b>

#### Provision for Long Service Awards

A long-service award is granted to municipal employees after the completion of fixed periods of continuous service with the Municipality. The provision represents an estimation of the awards to which employees in the service of the Municipality at 30 June 2019 may become entitled to in future, based on an actuarial valuation performed at that date.

The most recent actuarial valuations of plan assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2019 by a member of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

#### The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount Rate	9.29%	9.54%
CPI (Consumer Price Inflation)	6.07%	6.70%
Normal Salary Increase Rate	7.07%	7.70%
Net Effective Discount Rate	2.07%	1.71%

#### The effect of a 1 % increase movement in the assumed rate of salary inflation is as follows:

Total Accrued Liability	1,283,000	1,083,000
Current Service Cost	209,000	198,000
Interest cost	135,000	114,000
	<b>1,627,000</b>	<b>1,395,000</b>

#### The effect of a 1 % decrease movement in the assumed rate of salary inflation is as follows:

Total Accrued Liability	1,080,000	905,000
Current Service Cost	170,000	158,000
Interest cost	113,000	95,000
	<b>1,363,000</b>	<b>1,158,000</b>

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 10. Operating lease asset (liability)

Current assets	-	-
Current liabilities	(51,603)	(42,973)
	<b>(51,603)</b>	<b>(42,973)</b>

### Minimum Lease Payments due

Within one year	1,531	27,038
In second to fifth year	7,814	7,814
Over five years and until the end of the lease	494,300	495,830
	<b>503,645</b>	<b>530,682</b>

### 11. Trade and Other Payables

Trade payables	2,030,315	3,585,644
Other payables	592,687	439,275
Advances from the Department of Human Settlements	674,497	638,054
Deposits received	34,551	31,961
Retention	17,663,608	15,765,519
	<b>20,995,658</b>	<b>20,460,453</b>

Due to the adoption of GRAP 109 - Accounting by Principals and Agents, the unspent portion of the low housing project was reclassified from Unspent Conditional Grants to Trade and Other Payables.

### 12. Property rates

#### Rates

Property Rates Billed	7,538,883	5,548,890
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# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>13. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	120,566,000	119,071,495
Financial Management Grant	1,900,000	1,900,000
Municipal Infrastructure Grant	31,291,989	35,025,693
Expanded Public Works Program	1,526,000	1,291,000
KZN Sports Grant	-	349,014
Fire Fighting Grant	185,879	-
Intergrated National Electrification Programme	14,880,000	10,000,000
GIS Grant	-	7,985
	<u>170,349,868</u>	<u>167,645,187</u>
<b>Project Consolidate</b>		
Balance unspent at beginning of year	<u>99,885</u>	<u>99,885</u>
Conditions still to be met - remain liabilities (see note 8)		
<b>Financial Management Grant</b>		
Current-year receipts	1,900,000	1,900,000
Conditions met - transferred to revenue	<u>(1,900,000)</u>	<u>(1,900,000)</u>
	<u>-</u>	<u>-</u>
<b>GIS Grant</b>		
Balance unspent at beginning of year	-	7,985
Conditions met - transferred to revenue	<u>-</u>	<u>(7,985)</u>
	<u>-</u>	<u>-</u>

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>13. Government grants and subsidies (continued)</b>		
Conditions still to be met - remain liabilities (see note 8)		
<b>Municipal Infrastructure Grant</b>		
Balance unspent at beginning of year	-	401,693
Current-year receipts	37,392,000	34,624,000
Conditions met - transferred to revenue	(31,291,989)	(35,025,693)
	<b>6,100,011</b>	-
Conditions still to be met - remain liabilities (see note 8)		
<b>Expanded Public Works Program</b>		
Current-year receipts	1,526,000	1,291,000
Conditions met - transferred to revenue	(1,526,000)	(1,291,000)
	-	-
<b>Disaster Management Grant</b>		
Balance unspent at beginning of year	-	3,950,495
Grant transferred to National Treasury	-	(3,950,495)
	-	-
<b>KZN Sports</b>		
Balance unspent at beginning of year	-	349,014
Current-year receipts	50,000	-
Conditions met - transferred to revenue	-	(349,014)
	<b>50,000</b>	-
Conditions still to be met - remain liabilities (see note 8).		
<b>Fire Fighting Grant</b>		
Balance unspent at beginning of year	400,000	-
Current-year receipts	400,000	400,000
Conditions met - transferred to revenue	(185,879)	-
	<b>614,121</b>	<b>400,000</b>
Conditions still to be met - remain liabilities (see note 8).		
<b>National Electrification Grant</b>		
Current-year receipts	14,880,000	10,000,000
Conditions met - transferred to revenue	(14,880,000)	(10,000,000)
	-	-
<b>14. Investment revenue</b>		
<b>Interest revenue</b>		
Interest Received on Investments	12,993,519	12,509,546

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>15. Other income</b>		
Tender Income	127,825	188,452
Sundry income	354,881	510,409
	<b>482,706</b>	<b>698,861</b>
<b>16. Finance costs</b>		
Interest recognised on long service awards provision	104,000	95,000
<b>17. Contracted services</b>		
<b>Outsourced Services</b>		
Catering Services	3,887,987	4,508,242
Clearing and Grass Cutting Services	331,340	622,009
Medical Services	24,200	17,003
Security Services	1,947,693	1,631,121
<b>Consultants and Professional Services</b>		
Business and Advisory	2,149,773	3,633,019
Infrastructure and Planning	948,771	2,145,421
Legal Cost	190,476	34,617
<b>Contractors</b>		
Artists and Performers	806,000	328,800
Audio-visual Services	65,500	36,500
Interior Decorator	15,500	60,180
Repairs and Maintenance	6,708,784	3,591,809
Stage and Sound Crew	540,027	248,180
	<b>17,616,051</b>	<b>16,856,901</b>
<b>18. General expenses</b>		
Advertising, Publicity and Marketing	8,232,167	6,644,590
Auditors remuneration	1,442,082	1,309,636
Bank charges	99,156	100,234
Ward Committees	1,791,550	2,846,156
Bursaries	673,329	882,841
Consumables	4,941,857	2,325,655
Electricity	470,325	312,694
Free basic services - electricity	12,392,536	11,024,443
Entertainment	30,805	74,646
Hire charges	3,967,170	3,150,614
Insurance	1,024,132	950,444
Lease Rentals on Operating Lease	589,483	521,502
Licences	784,301	402,839
Printing and stationery	1,772,163	1,220,380
Subscriptions and membership fees	851,648	660,019
Subsistence and Travel	2,534,436	3,689,542
Communication	2,337,789	1,698,556
Transport to events	2,503,864	2,251,974
Solid waste disposal	170,827	251,500
Uniform and Protective Clothing	504,920	554,354
Registration fees	51,484	357,684
Other expenses	1,207,606	1,339,459
	<b>48,373,630</b>	<b>42,569,762</b>

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>19. Employee related costs</b>		
Basic Salary	33,925,075	29,595,644
Bonus	2,357,586	2,795,646
Medical aid - company contributions	1,528,586	1,378,679
Unemployment Insurance Fund	230,248	203,747
Skills Development Levy	458,103	399,842
Leave pay provision charge	1,238,178	1,189,762
Pension Contribution	3,763,602	3,232,088
Travel, motor car, accommodation, subsistence and other allowances	7,204,819	6,623,219
Overtime payments	1,266,931	1,006,278
Acting allowances	146,427	292,237
Other Salary costs	1,139,904	986,150
	<b>53,259,459</b>	<b>47,703,292</b>

### Remuneration of Municipal Manager

Annual Remuneration	515,447	727,483
Car Allowance	171,816	242,494
Performance Bonus	-	328,344
Other	7,747	273,002
	<b>695,010</b>	<b>1,571,323</b>

The Municipal Manager resigned in February 2019

### Remuneration of Chief Financial Officer

Annual Remuneration	871,475	819,881
Car Allowance	300,204	285,636
Performance Bonuses	-	296,215
Other	41,673	34,390
	<b>1,213,352</b>	<b>1,436,122</b>

### Remuneration Corporate Services Director

Annual Remuneration	618,574	659,137
Car Allowance	206,191	219,712
Performance Bonuses	-	218,814
Other	7,835	210,721
	<b>832,600</b>	<b>1,308,384</b>

### Remuneration of Technical Services Director

Annual Remuneration	452,825	437,573
Car Allowance	179,751	145,858
Other	159,589	6,481
	<b>792,165</b>	<b>589,912</b>

The Director for Technical Services resigned in April 2019

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>19. Employee related costs (continued)</b>		
<b>Remuneration of Social &amp; Community Services Director</b>		
Annual Remuneration	550,507	437,573
Car Allowance	212,312	145,858
Other	136,051	25,983
	<b>898,870</b>	<b>609,414</b>
<b>20. Remuneration of councillors</b>		
Mayor	880,202	849,387
Deputy Mayor	712,698	686,186
Speaker	712,570	686,389
Councillors	14,582,824	13,625,661
	<b>16,888,294</b>	<b>15,847,623</b>
<b>21. Debt impairment</b>		
Debt impairment	673,481	456,146
<b>22. Depreciation and amortisation</b>		
Property, plant and equipment	23,899,727	24,356,109
Intangible assets	323,822	305,949
	<b>24,223,549</b>	<b>24,662,058</b>
<b>23. Auditors' remuneration</b>		
Fees	1,442,082	1,309,636
<b>24. Cash generated from operations</b>		
Surplus	30,213,875	37,800,101
<b>Adjustments for:</b>		
Depreciation and amortisation	24,223,549	24,662,058
Loss on sale of assets	12,637	411,601
Debt impairment	673,481	456,146
Movement in operating lease accrual	8,630	5,370
Movements in provisions	1,252,759	649,916
Other non-cash items	-	273,457
<b>Changes in working capital:</b>		
Receivables from exchange transactions	(9,715)	(382,419)
Trade and other receivables from non exchange transactions	(4,993,310)	(3,802,558)
Trade and Other Payables	535,205	6,345,050
VAT	(504,780)	1,940,921
Unspent Conditional Grants and Receipts	6,364,132	(4,912,857)
	<b>57,776,463</b>	<b>63,446,786</b>

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>25. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Approved and contracted for:</b>		
• Infrastructure	74,734,690	65,868,909
<b>Approved but not yet contracted for:</b>		
• Infrastructure	256,409,943	167,892,663
<b>Total capital commitments</b>		
Already contracted for but not provided for	74,734,690	65,868,909
Not yet contracted for and authorised by accounting officer	256,409,943	167,892,663
	<b>331,144,633</b>	<b>233,761,572</b>

This committed expenditure relates to Infrastructure and will be financed by Government Grants.

### 26. Unauthorised expenditure

Opening balance as previously reported	4,232,246	2,379,003
<b>Opening balance as restated</b>	<b>4,232,246</b>	<b>2,379,003</b>
Add: Unauthorised expenditure - current year	-	1,853,243
Less: Amount written off - current	(1,853,243)	-
<b>Closing balance</b>	<b>2,379,003</b>	<b>4,232,246</b>

### 27. Fruitless and wasteful expenditure

Add: Fruitless and wasteful expenditure - current year	5,833	16,942
Less: Amount written off - current	(5,833)	(16,942)
<b>Closing balance</b>	<b>-</b>	<b>-</b>

### Incidents

The municipality incurred fruitless and wasteful expenditure of R 5 833 due to interest and penalties arising from late payments

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand

### 28. Effects of correction and reclassification of prior year errors / adjustments on financial statements

An amount of R14 374 relates to correction of prior year salary balances and accounts payable balances.

Due to the adoption of GRAP 109 - Accounting by Principals and Agents, R638 054 unspent portion of the low housing project was reclassified from Unspent Conditional Grants to Trade and Other Payables.

#### Statement of Financial Position

	Note	As previously reported	Correction of errors	Reclassification	Total
Receivables from exchange transactions	4	726,109	-	-	726,109
VAT Receivable	5	6,632,317	-	-	6,632,317
Trade and Other Receivables from Non Exchange Transactions	6	12,645,548	-	-	12,645,548
Cash and Cash Equivalents	7	181,380,745	-	-	181,380,745
Property , Plant and Equipment	2	345,048,870	-	-	345,048,870
Intangible Assets	3	1,180,761	-	-	1,180,761
<b>Total Assets</b>	<b>-</b>	<b>547,614,350</b>	<b>-</b>	<b>-</b>	<b>547,614,350</b>
Operating Lease Liability	10	(42,973)	-	-	(42,973)
Trade and Other Payables	11	(19,836,783)	14,374	(638,054)	(20,460,463)
Unspent Conditional Grants and Receipts	8	(1,137,939)	-	638,054	(499,885)
Current : Provisions	9	(4,438,529)	-	-	(4,438,529)
Non Current Provisions	9	(932,000)	-	-	(932,000)
Accumulated Surplus	-	(521,226,126)	(14,374)	-	(521,240,500)
	<b>-</b>	<b>547,614,350</b>	<b>-</b>	<b>-</b>	<b>547,614,350</b>

#### Statement of financial performance

	Note	As previously reported	Correction of errors	Reclassification on	Total
Other Income	15	698,861	-	-	698,861
Interest Received - Investment	-	12,509,546	-	-	12,509,546
Property Rates	12	5,548,890	-	-	5,548,890
Government Grants & Subsidies	13	167,645,187	-	-	167,645,187
<b>Total Revenue</b>	<b>-</b>	<b>186,402,484</b>	<b>-</b>	<b>-</b>	<b>186,402,484</b>
Employee Related Costs	18	(47,703,292)	-	-	(47,703,292)
Remuneration of Councillors	19	(15,847,623)	-	-	(15,847,623)
Depreciation Amortisation and Impairment	21	(24,662,058)	-	-	(24,662,058)
Finance Cost	-	(95,000)	-	-	(95,000)

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand

Debt Impairment	20	(456,146)	-	-	(456,146)
Contracted Services	16	(16,856,901)	-	-	(16,856,901)
General Expenses	17	(42,569,763)	-	-	(42,569,763)
Loss on Disposal of Assets	-	(411,601)	-	-	(411,601)
<b>Surplus for the year</b>	<b>-</b>	<b>37,800,100</b>	<b>-</b>	<b>-</b>	<b>37,800,100</b>

### Cashflow Statement

	Note	As previously reported	Correction of errors	Total
Government Grants and subsidies	-	163,370,384	-	163,370,384
Cash Receipts from Customers	-	2,449,739	-	2,449,739
Interest Income	-	12,453,838	-	12,453,838
Finance Costs	-	(95,000)	-	(95,000)
Cash Paid to Suppliers and Employees	-	(114,732,175)	-	(114,732,175)
Purchase of Property, Plant and Equipment	2	(51,363,107)	-	(51,363,107)
Purchase of intangible assets	3	(370,244)	-	(370,244)
Proceeds from Sale of Assets	-	449,920	-	449,920
<b>Net increase in cash and cash equivalents</b>	<b>-</b>	<b>12,163,355</b>	<b>-</b>	<b>12,163,355</b>

### 29. Contingencies

#### Contingent Liabilities

Incidents.

Some employees referred a dispute between themselves and the municipality to the SALGBC which related to their salaries. The estimated cost amounts to R432 000.00

The municipality is the second respondent involved in a contractual dispute with a service provider. The estimated cost amount to R3 162 994 if the Municipality is unsuccessful. The prospects of success in this matter is high as the Municipality will likely defend this matter successfully.



# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 30. Risk management

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and rates debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument		
Trade and other receivables from non exchange transactions (Rates)	16,965,377	12,645,548
Cash and Cash Equivalents	196,621,721	181,380,745

### 31. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 32. Additional disclosure in terms of Municipal Finance Management Act

#### Contribution to Local Government Associations

Opening balance	555,520	-
Current year subscription	624,350	555,520
Amount paid	(1,179,870)	-
	<b>-</b>	<b>555,520</b>

#### Audit fees

Current year fee	1,442,082	1,309,636
Amount paid - current year	(1,442,082)	(1,309,636)
	<b>-</b>	<b>-</b>

#### PAYE and UIF

Current year deductions	10,617,245	10,586,876
Amount paid	(10,617,245)	(10,586,876)
	<b>-</b>	<b>-</b>

#### Pension, Provident and Medical Aid Deductions

Current year	8,645,187	7,653,332
Amount paid	(8,645,187)	(7,653,332)
	<b>-</b>	<b>-</b>

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand

2019

2018

### 33. Multi employer retirement benefit

Umzumbe Local Municipality makes provision for retirement benefits to eligible councillors and employees, who belong to different pension schemes.

All full-time employees belong to the KwaZulu Natal Joint Municipal Pension Fund, which are made up by the Retirement, Superannuation and Provident Funds. Councillors have the option to belong to the Pension Fund for Municipal Councillors.

These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes.

All of these afore-mentioned funds are multi-employer plans and are subject to either a tri-annual, bi-annual or annual actuarial valuation, details which are provided below.

Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:-

- (i) The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers.
- (ii) One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.
- (iii) The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

The Retirement Funds have been valued by making use of the Discounted Cash Flow method of valuation. For both the Superannuation and Retirement Funds valuations making use of the Discontinuance Method Approach have been included as well.

### DEFINED CONTRIBUTION SCHEMES

#### Natal Joint Municipal Pension Fund:

The scheme is subject to an actuarial valuation. The last statutory valuation was performed as at 31 March 2018.

The valuation performed revealed that at the valuation date, the fair value of the Fund's adjusted net assets amounted to R 4 055 121 000.

As reported by the Actuaries, the Fund was not in a sound financial condition as at 31 March 2018, in that the assets of the Fund were insufficient to cover the accrued service liabilities including the recommended contingency reserves in full. The deficit is being funded by the surcharge that is being paid. Based on the increase in the surcharge that is recommended, the deficit is expected to be eliminated within the period allowed.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 34. Related Party Transactions

#### Related party balances

##### Payments to related parties

Smakuhle General Trading	-	29,500
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Smakuhle General Trading - The company is owned by the sister of an employee (Municipal Driver) of Umzumbe Municipality.

##### Amounts included in General expenses regarding related parties

Ugu South Coast Development Agency	633,938	598,500
Ugu South Coast Tourism Authority	548,318	516,192

### Section 45 and 44 of SCM Regulations

#### Awards to business associates in service of state

As a result of the 2017/2018 audit, expenditure of R 403 086.40 (2017 - R 236 922.50) related to awards to business associates of persons in the service of the state. This information came to the attention of the Municipality towards the finalisation of the 2017/18 audit in the current year.

### 35. Section 36 deviations

During the year the Accounting Officer approved minor breaches in terms of section 36 (1) (b) as well as section 36 (1) (a) amounting to R4 429 203 (2018 - R4 654 553)